

Reinsurance and Health Reform

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† standard disclaimer applies

Roadmap

- I. Introduction to reinsurance and our project
- II. Data base construction & policy simulation
- III. State-specific results & consultation
- IV. Conclusions

Rationales for Public Reinsurance

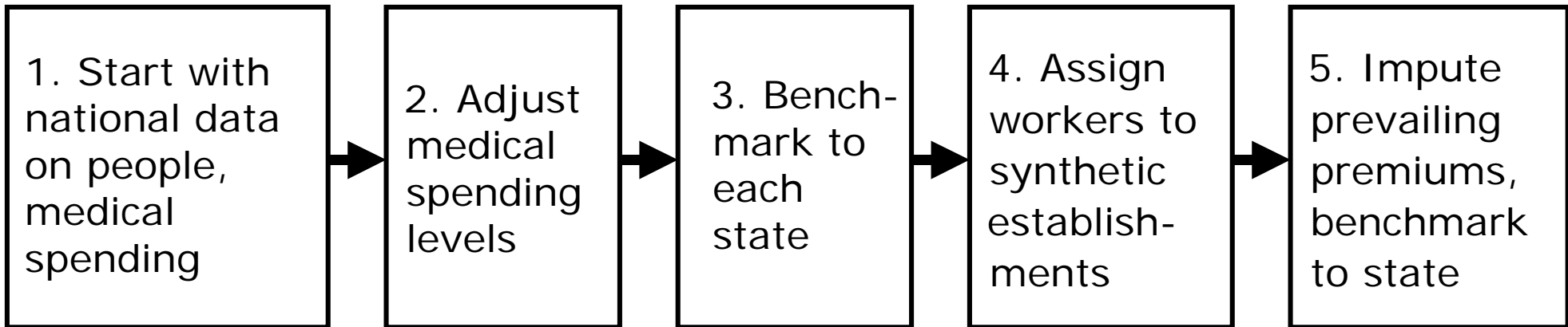
- Akin to private reinsurance, but different goals & funding
 - Subsidy to targeted population
 - Reduce selection bias in market
 - Help new market entry by assuming high, unfamiliar risk
- Key points
 - Impact depends partly on financing: not from targeted sector, but broad financing base
 - Costs vary with size of population targeted, generosity of public subsidy
 - Reasons for interest: Healthy New York, various policy proposals

Project Did Simulations to Aid Policy

- Reinsurance approach to be modeled:
 - Subsidy through HealthyNY-style end-of-year reinsurance
- Worked with three states
 - The states all wanted to target those already insured, not just uninsured
- Why is this hard to do? Need good population data
 - individual and employer characteristics
 - health expenses in the upper tail of risk → sample size concerns
- Problem: No such state datasets exist
- Solution: Build a new dataset

Baseline Data Construction

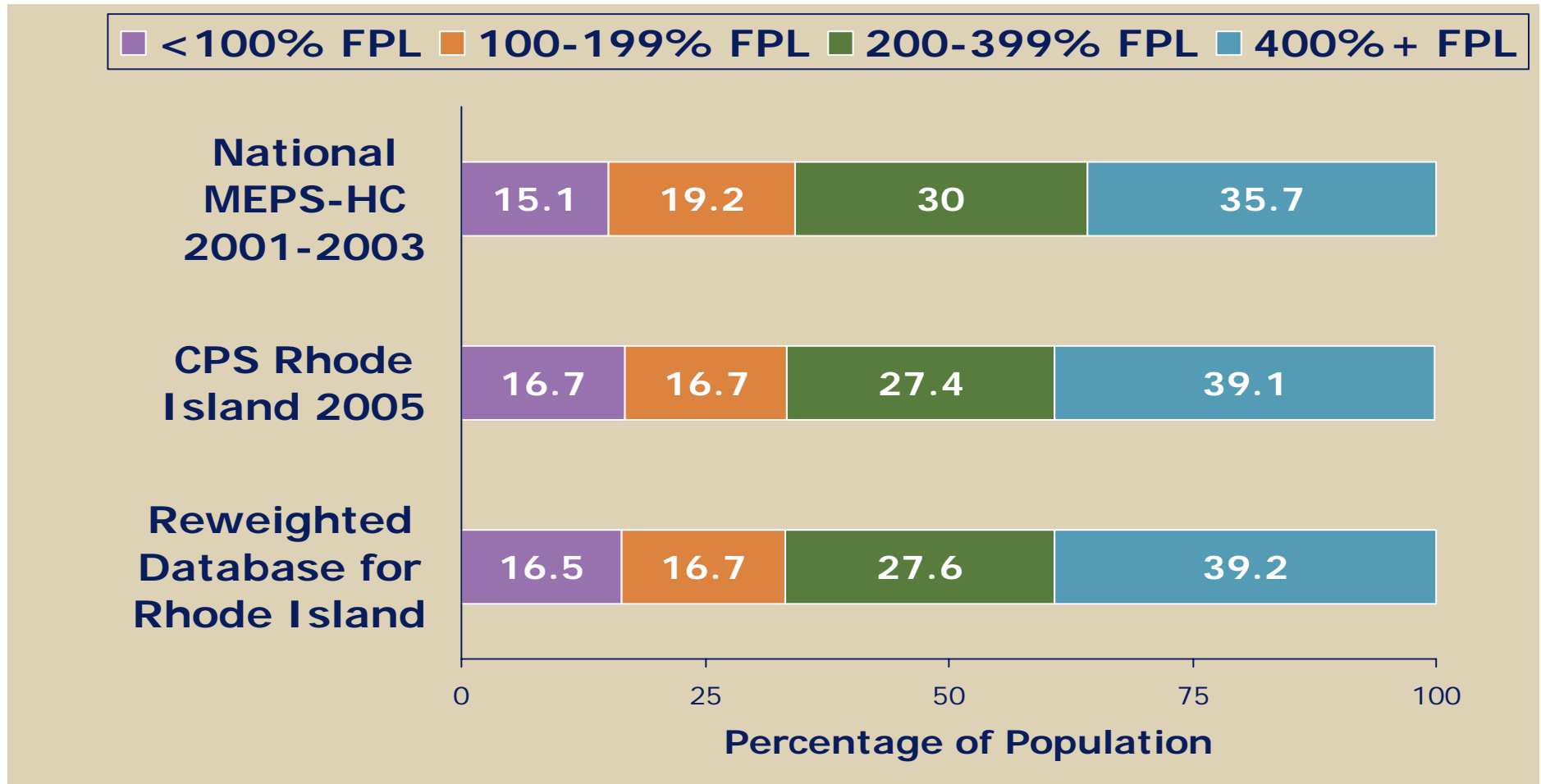
- Reflect state population, employment, and premiums



Source: Bovbjerg et al. May 2005, Ex. 2

Benchmarking Reweighted Distributions

e.g., family income closely matches CPS data (RI)



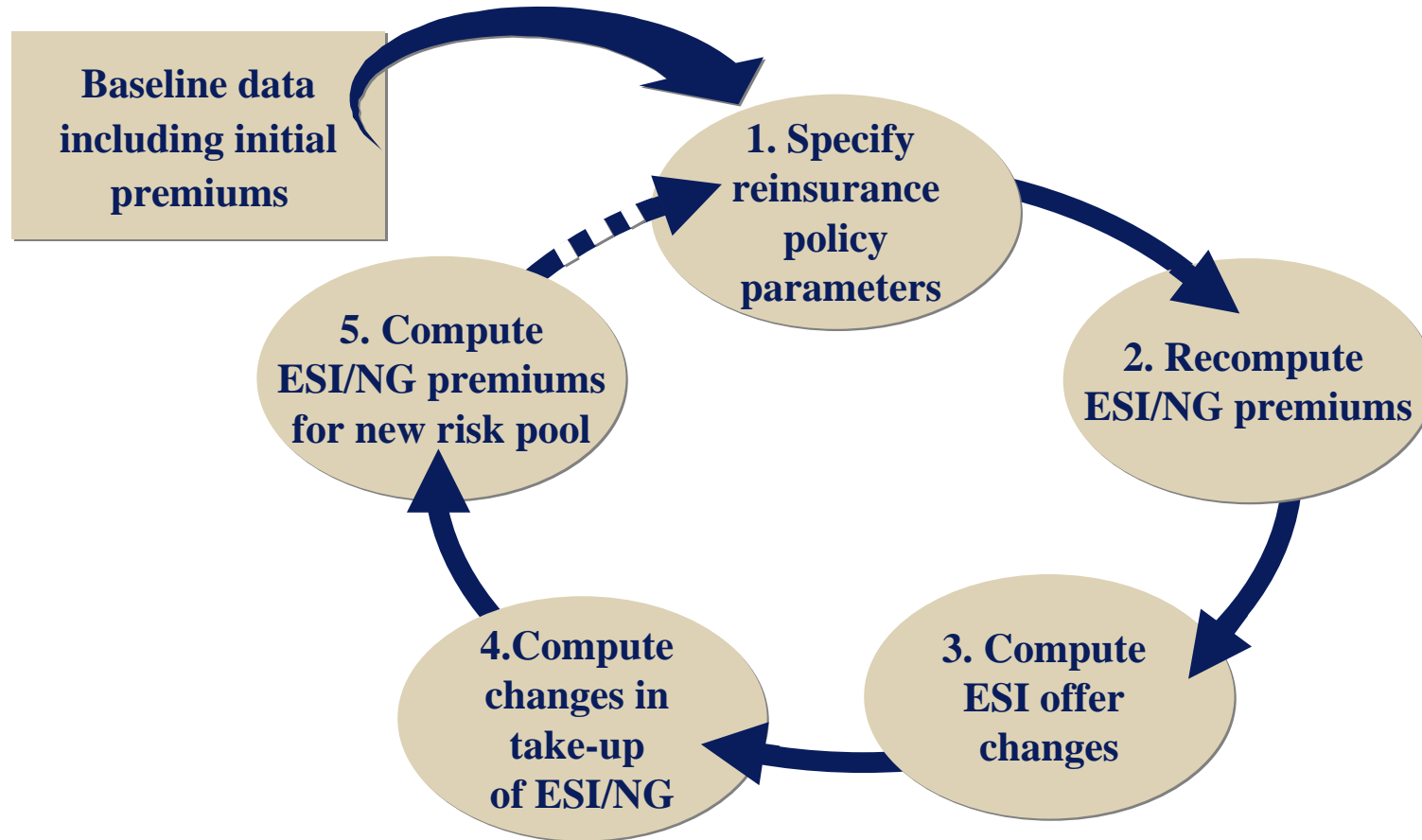
Reinsurance Rules to Be Applied

Policy Parameters Subject to Modeling

- Definition of reinsured expenditures
 - threshold, upper limit, coinsurance
- Targeted eligibles
 - which market, what firm size(s), which income or wage levels
- Premium rating rules
 - pooling, allowable rating factors, rate bands

Dynamics of Reinsurance

Iterative Flow of Simulation Model



Source: Bovbjerg et al. May 2005, Ex. 3. Note: ESI is employer-sponsored insurance; NG is non-group insurance (also called "individual" or "direct-pay" coverage).

Effectiveness of Modeling

- Model does well in addressing:
 - big-picture--the effects on premiums, coverages, costs
 - who goes where (insurance status by characteristics)
 - where premium savings are concentrated
 - how risk pools change
 - how composition of uninsured changes
- Model has some key limitations:
 - precise magnitude of behavioral effects somewhat uncertain
 - model does not capture admin. costs, benefit design, insurer response like exit/entry, underwriting behavior...
 - so, significant role remains for qualitative analysis

State Results, Rhode Island

- Policy: cross-subsidize within a market to offset some of the market's segmentation
- Pool small group and non-group markets now split into two, each with standard & higher risks
- Shift funds across enrollees and insurers via reinsurance funded by a 5% assessment -- or \$24.4 million (2007)
- Corridor 1:
 - \$5,000 to \$6,427, 10% coinsurance
 - net premiums up for enrollees in good health (both SG & NG), down for NG enrollees in poor health.
- Corridor 2:
 - \$20,000 to \$28,076, 10% coinsurance
 - Both healthy & less-healthy NG would subsidize SG

Source: Masi et al. Nov 2007

State Results, Washington (1)

- 12 specifications of reinsurance for SG & NG
- Low threshold needed (\$5,000 to \$25,000) for big impact on premiums, but creates high expense for state
- Broad reinsurance (\$10,000 to \$90,000) for broadest population (all SG & NG) would achieve:
 - 15% drop in uninsurance
 - SG single premiums down 30.5%, family 33%; NG 38% for both
 - Increased employer offer in small firms = main driver of change
 - Gains lower among lower-income families; they are less able to afford even subsidized coverage
 - Costs to the state >\$880 million, i.e., \$530 M SG, \$350 M NG

Source: Clemans-Cope et al. Jan. 2008

State Results, Washington (2)

- Reinsurance limited to conventional SG & NG -- i.e., not in association health plans or high risk pool
- Cut uninsurance to same extent (14.5%)
- Cut premiums somewhat more
- Cost to state 31% lower
- Main reason: reinsurance targeted more narrowly to a smaller population

source: Bovbjerg et al. Feb 2008

State Results, Wisconsin

- Subsidize smallest employers (1-9) with \$100 million

Reinsurance Configurations

	"Narrow"	"Broad"	"Catastrophic"
Reinsurance Corridor (\$)	\$5,000 to \$17,500	\$15,000 to \$75,000	\$14,000 and up
Carrier retention percentage (%)	10%	10%	20%
Changes in uninsured			
<i>(number of people)</i>	-5,865	-5,865	-5,831
<i>(%age change in number of uninsured)</i>	-1.10%	-1.10%	-1.10%
Changes for firm size: 2 to 9 employees			
Change in single premiums			
<i>(2007 \$)</i>	(\$919)	(\$323)	(\$334)
<i>(%age change)</i>	-19.90%	-7.00%	-7.20%
Change in family premiums			
<i>(2007 \$)</i>	(\$2,690)	(\$4,838)	(\$4,977)
<i>(%age change)</i>	-18.70%	-34.00%	-34.50%
Change in firms offering ESI			
<i>(number of firms)</i>	1,659	1,291	1,291
<i>(%age point change)</i>	9.90%	7.70%	7.70%
Government cost*			
<i>(in Millions, 2007 \$)</i>	\$100.10	\$98.80	\$101.00

Source: Garrett et al. Dec. 2007

Other Benefits & Costs

beyond Subsidies & Uninsurance

- Potential benefits
 - reduced year-to-year claims volatility, risk premium
 - reduced need for capital under risk-based rules
 - reduced year-to-year turnover across plans, transaction costs
 - lower need for/costs of private reinsurance
 - less underwriting, lower costs
- Potential costs
 - New transaction costs
 - Moral hazard for primary insurers
- Such costs and benefits offsetting, not modeled

Conclusions

- Broad reinsurance subsidy can expand coverage, but mainly solidifies existing coverage
- Amount of subsidy is key, not reinsurance specifications
- Eligibility targeting affects subsidy going to newly covered
- Some surprising distributional impacts, e.g., helps higher as against lower-income residents
- Reinsurance can also help ameliorate risk segmentation
- But higher risk people also need guaranteed issue, pooling of losses so as to create affordable premiums
- Other mechanisms also address risk segmentation

Source Material

Randall R. Bovbjerg, Lisa Clemans-Cope, Paul Masi, and A. Bowen Garrett, *Reinsurance in Washington State*, Report to the Washington Office of Financial Management and Office of the Insurance Commissioner, February 2008, accessible from <http://www.urban.org/url.cfm?ID=411662>

Randall R. Bovbjerg, A. Bowen Garrett, Lisa Clemans-Cope, and Paul Masi, *Reinsurance in State Health Reform*, Urban Institute report to the State Coverage Initiatives Program, AcademyHealth, Washington, DC, May 2008, accessible from <http://www.statecoverage.net/reinsuranceinstitute.htm>

Lisa Clemans-Cope, A. Bowen Garrett, Paul Masi, and Randall R. Bovbjerg, "Washington Specific Requests of Reinsurance Institute," Memorandum to Jenny Hamilton (Office of Financial Management) and Pete Cutler (Office of the Insurance Commissioner), Dec. 17, 2007, rev'd Jan. 8, 2008

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A. Bowen Garrett, Paul Masi, Lisa Clemans-Cope, and Randall R. Bovbjerg, "Summary of Reinsurance Institute Work with Wisconsin and Final Modeling Results," Memorandum to Department of Health and Family Services, December 26, 2007.

Paul Masi, A. Bowen Garrett, Lisa Clemans-Cope, and Randall R. Bovbjerg, "Summary of Reinsurance Institute Work with Rhode Island and Final Modeling Results," Memorandum to Office of the Health Insurance Commissioner, November 28, 2007.

End

time for questions . . .